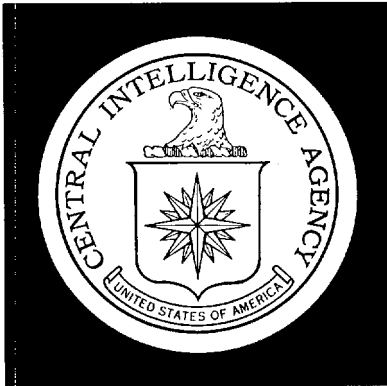


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DIRECTORATE OF
INTELLIGENCE

Central Intelligence Bulletin

Secret

No 42

31 July 1971

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Approved For Release 2003/06/25 : CIA-RDP79T00975A019600100001-3

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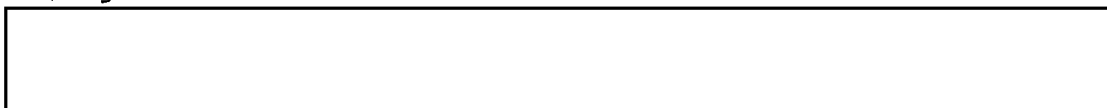
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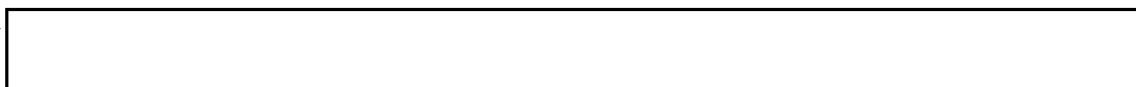
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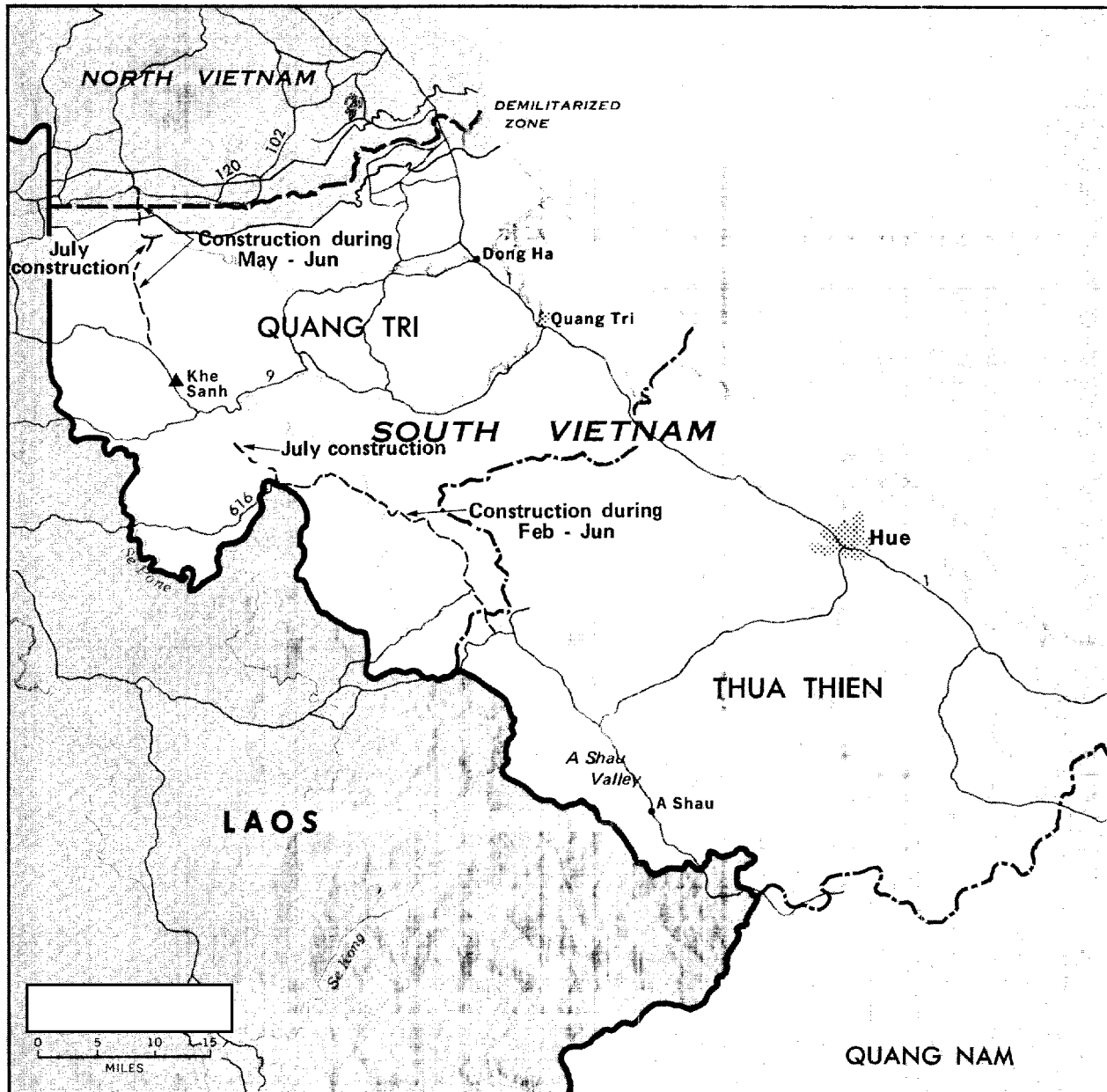
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New Communist Road Construction



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INDOCHINA: Work continues on the new Communist road through the western end of the DMZ which joins roads in South Vietnam.

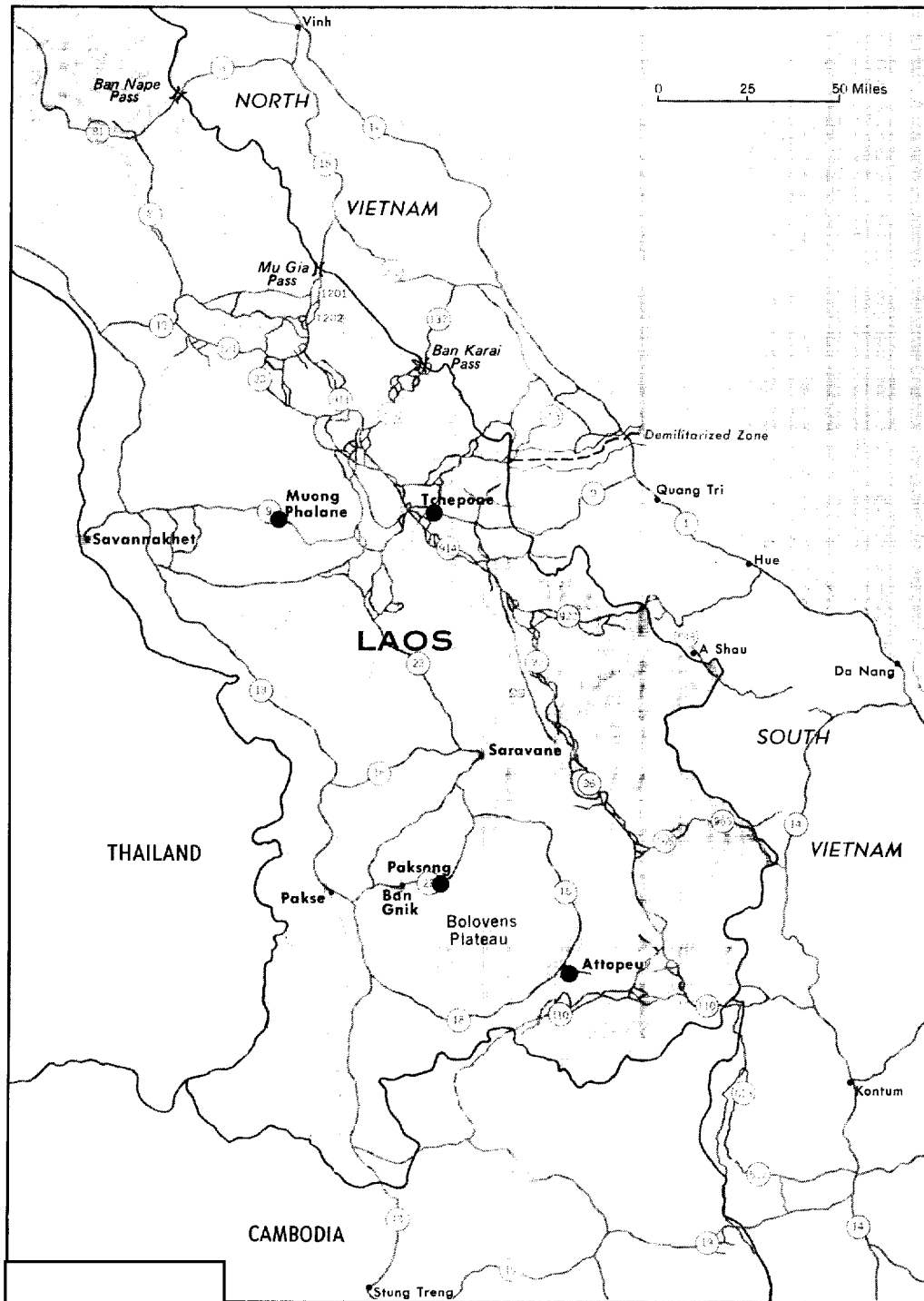
Recent photography indicates that during the past month two more miles have been added and that about three miles remain to be completed before connecting with Route 9, the main east-west road into Quang Tri Province. The DMZ road considerably improves access to this region and it will permit the Communists to take advantage of comparatively dry weather in South Vietnam while heavy rains and bombings are disrupting supply movements to the west in Laos. Construction extending northeast from the new road probably is intended to link with Routes 102/120 from North Vietnam, which end in the DMZ.

Farther south, the Communists are continuing to make slow progress on a road north from Route 616 toward Route 9. Several gaps which total up to nine miles remain to be completed to link the DMZ road to the A Shau Valley. [REDACTED]

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LAOS: Government forces are making progress in their campaign to retake Paksong despite some determined enemy resistance.

Two regular army battalions met opposition before they were able to secure Ban Gnik village on Route 23. Elements of a North Vietnamese battalion, well entrenched in nearby bunkers, countered the government advance with rocket and mortar fire. The government forces secured the village following intense artillery and aerial bombardment.

US air observers report that the Communists are constructing bunkers and gun pits farther east along Route 23 and on high ground just west of Paksong, suggesting that they intend to put up a spirited defense of the central Bolovens.

To the north of Route 23, the three battalions that make up the 1,250-man main government task force are pushing east parallel to the road in an effort to take Paksong from the north. This force had been airlifted to positions on the western edge of the plateau without opposition.

North of the plateau, government units are still holding Saravane. Several small clashes have occurred in this area.

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PHILIPPINES: Manila is likely to request relatively large quantities of rice from the US and perhaps other exporters within a few days.

The government is expected to seek some 350,000 tons of rice, equal to about ten percent of annual consumption, in order to stabilize rice prices before the November congressional elections. These imports would be in addition to the 100,000 tons purchased from Taiwan and Thailand earlier this year when rice shortages first occurred. Because of these shortages the retail price of cereals, mostly rice, jumped more than 11 percent during the first quarter of 1971 and has continued to rise since then.

Although rice production increased substantially in the late 1960's, Manila's earlier goal of long-term self-sufficiency is far from being attained. The country has had trouble improving on earlier output gains largely because most irrigated land is already devoted to high-yielding varieties that accounted for the initial boosts in production. Typhoon damage last year has aggravated the situation and added to import requirements. The need to import large quantities on a crash basis also reflects the fact that at least some stocks purchased by the government in recent years were illegally sold by rice dealers who held them.

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ITALY: Prime Minister Colombo is pushing for Senate action on housing and tax reforms in a situation which holds some perils for the government.

The vote on both bills is scheduled for 7 August. The simultaneous Senate action is a compromise between the relatively liberal proponents of the housing bill and the more conservative backers of tax reform. Each group had initially sought priority for its bill.

Colombo has worked out an amended draft of the housing bill which is apparently acceptable to the leaders of the three government parties--the Christian Democratic, the Socialist, and the Social Democratic. Nevertheless, as the vote is secret, an undetermined number of conservative Christian Democrats may vote against the bill.

Defeat of either bill might well force the government to resign. Italian press speculation suggests that a government crisis at this time might also lead President Saragat to resign to restore forward momentum to the country's political activity. A new presidential election would then be held within 15 days instead of next December, as presently scheduled.

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CEMA: The final communiqué of the annual session of CEMA contained something for everyone.

Soviet desire to focus attention on economic interdependence among the members lies behind prominent reference to the ultimate goal of economic integration, the subject of a "complex program" that soon is to be published. Its planned implementation over only a 15- to 20-year period indicates that an air of compromise pervaded the conference. The Hungarian delegation noted that the lack of participation of "one or two countries" in an integration scheme would not be an obstacle to the cooperation of other "interested" countries. They also made clear that the target of "integration" did not rule out development of economic relations with countries having different social systems.

Romania, which had publicized its dim view of integration plans prior to the conference, has not as yet commented on the communiqué. It presumably found its interests adequately protected by a liberal sprinkling of references to "equal and sovereign states," "noninterference in the internal affairs" of members, and "complete equality and voluntariness." Although Bucharest characterized as "cordial and comradely" conversations held concurrently with Soviet trade and planning ministers on "deepening" of collaboration, specialization in production, and the exchange of goods over the next five years, Soviet officials may have used particularly blunt language.

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CHILE: Leftist defections from the Christian Democratic Party (PDC) will help the Allende government's divide and conquer strategy.

A group of Christian Democrats called the "Christian Left," including youth leaders and as many as ten deputies, is leaving the parent party in protest over PDC cooperation with conservative opposition groups. The small faction has been a disruptive influence within the party and probably will not siphon off many votes. However, the loss of some of its most energetic members tarnishes the PDC victory in a recent by-election and reduces the opposition's majority in the legislature. Moderate PDC leaders still hope to dissuade some of the rebels from an open break.

The dissidents reportedly will join forces with other leftist Christian Democrats who left the party in May 1969. The latter were the nucleus of the Unitary Popular Action Movement (MAPU), which is a member of Allende's coalition, but are said to be unhappy over the capture of the MAPU leadership by radical extremists and reportedly will join the Christian Left movement. Whether this group will then join Allende's coalition or remain independent is unclear.

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URUGUAY: The Tupamaros' spectacular jailbreak on Thursday will spur further attacks on the vulnerable Pacheco administration.

The Tupamaro operation made use of a block-long underground tunnel to free 44 female terrorists--almost all of the inmates in the women's prison. To add to the government's chagrin, responsibility for prison administration had been transferred earlier this year from the Ministry of Culture to that of Interior to improve security after the escape last year of 13 women prisoners.

The escape comes at a time when congressional-executive relations have already reached a new low. A resolution to impeach the President passed the Chamber of Deputies but has apparently been blocked in the Senate. Opposition factions, and especially the new leftist Frente Amplio coalition, will seize upon this latest government gaffe. A Frente request for interpellation of the minister of interior seems likely to succeed if he does not resign as a result of the escape.

Even before the jailbreak, the terrorism problem, difficulties with the congress, and the threat posed by the Communist-backed Frente in the November elections had prompted rumors of a coup to be led by President Pacheco. Pacheco's tough policies and his headstrong personality have fueled such speculation. The evidence strongly suggests Pacheco will ignore certain constitutional restraints if they interfere with his concept of effective leadership. Actual planning for a coup in democratically oriented Uruguay, however, will probably have to await either an increase of violent terrorist activity or a clear indication that the Frente has a strong chance of winning the November elections. [REDACTED]

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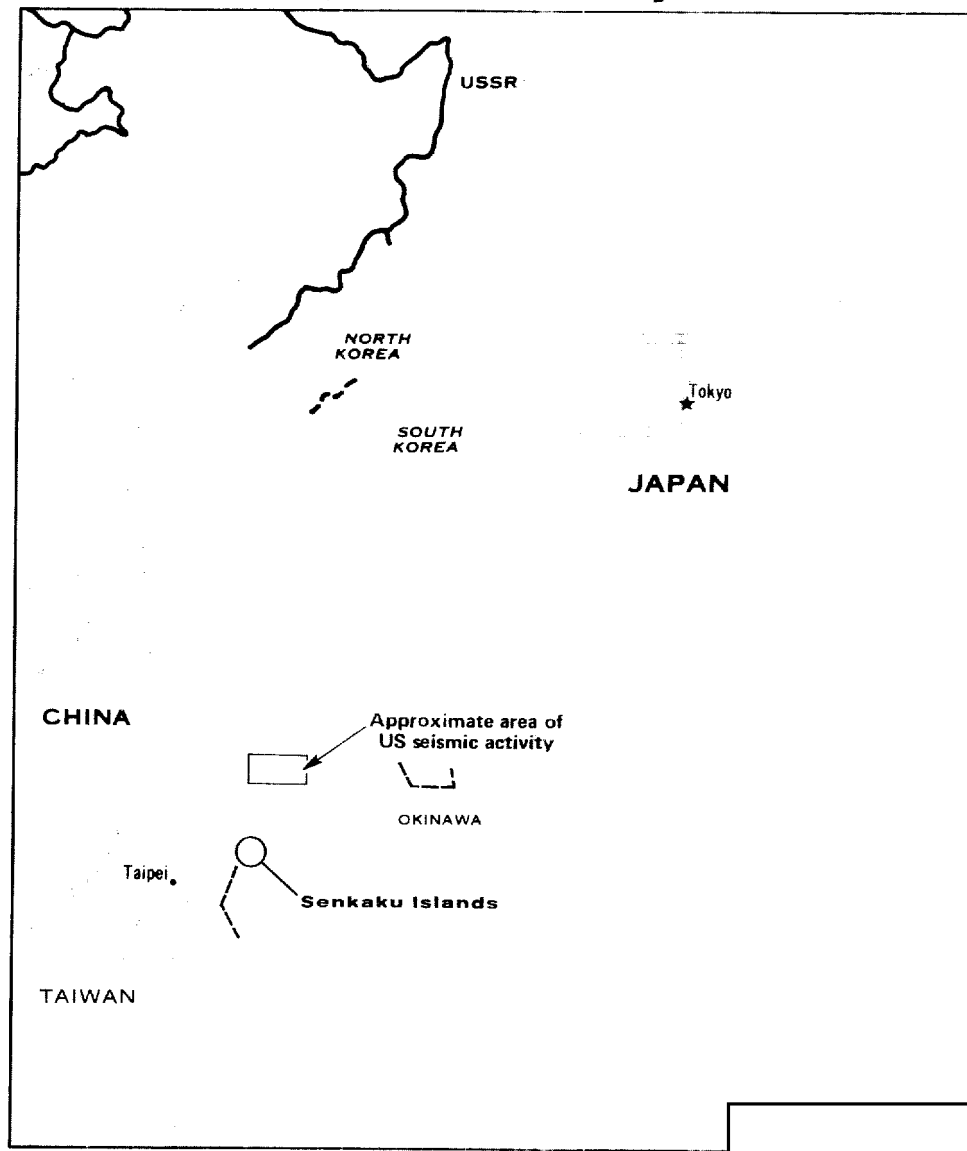
SIERRA LEONE - COMMUNIST CHINA: Sierra Leone has become the eighteenth African country having diplomatic relations with Peking, and the fifth to establish them since last October. Taipei, which has had diplomatic relations with Sierra Leone since 1963, was given no forewarning and has not yet reacted to Freetown's announcement that it recognizes Peking as the sole representative of the Chinese people. If Taipei severs its ties, it probably would mean the end of its important economic assistance program; however, an aid package was part of the agreement with Peking. Since coming to power in April 1968, President Siaka Stevens--under pressure from leftists within the ruling party--has gradually modified the pro-West foreign policy of previous governments. [REDACTED]

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US Company Completes Seismic Survey in East China Sea



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ZAMBIA: The government has retreated from its decision of last November to merge all private commercial banks into two state-controlled institutions. The principal foreign-owned commercial banks--Barclays, Standard, and National & Grindlays--will not be nationalized as originally planned. Instead, in an apparent attempt to make the three foreign banks more vulnerable to future government action, Lusaka will require that by 1972 they incorporate in Zambia, have at least one half of their board of directors reside in Zambia, and possess a minimum of \$2.8 million in paid up capital. These banks are virtually the only major institutions that have escaped Zambia's sweeping nationalizations. [REDACTED]

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YUGOSLAVIA: The selection of Krste Crvenkovski to be vice president of the new collective presidency means that for the next year he would substitute if Tito is absent or incapacitated. The appointment of Crvenkovski, a Macedonian, should serve to lessen the possibility of clashes between Serb and Croat interests while offering encouragement to other politicians from the smaller minority groups. [REDACTED]

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EAST CHINA SEA: At least one US company is extremely bullish about finding oil in commercially exploitable quantities in the East China Sea north of the disputed Senkaku Islands. Company officials are encouraged by the results of recently completed seismic surveys and compare the potential for finding oil to that of the area offshore of Indonesia. The company tentatively plans to begin drilling in the mid-1973 to mid-1974 period despite what they see as a potentially high risk because of conflicting claims of Tokyo, Taipei, and Peking to the area. [REDACTED]

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